

January 30, 2006

Governor Arnold Schwarzenegger
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Comments: Draft Climate Action Team Report to the Governor and Legislature

Dear Governor Schwarzenegger;

I applaud you for taking the initiative to be the first governor in the Western U.S. to significantly address global climate change by proposing a market-based strategy through the publication of the December 8, 2005 *Climate Action Team Report to the Governor and Legislature (CAT Report)*. Based on my understanding of the current research, the report accurately captures how human-induced climate change can affect the world, and in particular, the well-being of residents in the State of California. The *CAT Report* also does a good job of identifying current state agency mitigation efforts along with proposed strategies for future implementation as noted in Table ES 3.

From the 1990s to the present, the governor, the legislature, and California state agencies have attempted to address global climate change and have made considerable progress through a variety of state-wide programs. Some of these adopted and proposed programs include advancing a 33 percent renewable portfolio standard by 2020; proposing vehicle climate change and diesel anti-idling standards; implementation of various efficiency standards and financing; establishing statewide recycling goals; implementing programs for solar and energy efficient schools; assisting local governments, special districts, hospitals and other facilities using the Energy Partnership program; implementing the California solar initiative; encouraging demand response systems in large buildings; implementing the green buildings initiative; supporting distributive energy; adopting renewable energy buy-downs, and much more.

In 2001, the State created a public/private partnership called the Climate Action Registry which now has 45 members consisting of utilities, companies, cities, government entities and non-governmental organizations. Each member of the registry makes a voluntary effort to measure and report their emissions and this effort demonstrates a commitment to reducing greenhouse gasses. These farsighted entities should all be commended for their voluntary efforts. Although the State's previous efforts are important and significant, more needs to be done from a policy standpoint to track and reduce global greenhouse gasses in California. The CAT team has provided excellent guidance for implementing a cap and trade program to demonstrate that the State of California takes the issue of global climate change seriously.

Some specific comments on the *Draft Climate Action Team Report to the Governor and Legislature* are as follows:

1. ***Time frame is not well defined.*** Page ii of the Executive Summary of the *CAT Report* states that the report provides direction for the next two years; however, the tables estimate carbon reductions at years 2010 and 2020. It is not clear why the term of the report is only for two years. Would this plan be updated every two years? What happens after two years?
2. ***Coordination with other states and countries.*** I support the recommendations for coordination with other states as noted in the November 2004 *West Coast Governors' Global Warming Initiative*. Coordination and cooperation with West Coast and Northeast on the adoption of market-based standards is critical. All efforts to coordinate with our West Coast neighbors will enhance opportunities for collaboration and continued long-term economic growth. Moreover, in absence of national climate change mandates, several Northeast states have adopted market-based climate change regulations and therefore, coordination with these states is essential. Lessons learned from the European Union and the United Kingdom's trading programs may also be beneficial to examine.

As noted in the *West Coast Governors' Global Warming Initiative Report (Initiative Report)*, the three Western states can capitalize on renewable energy strengths and opportunities in the region. Some of the important benefits noted in the *Initiative Report* include, investment of energy dollars at home rather than exported overseas to oil and gas suppliers; savings of billions of dollars in energy costs to consumers and businesses; and stimulation of economic development in rural areas and in the agricultural sector through development of clean energy solutions. Through cooperative efforts, the three states can create new jobs in the renewable energy and energy efficiency sectors and this can help to provide a hedge against the economic impact of price spikes for natural gas and oil. Over the long term, West Coast states have envisioned becoming global leaders in the development of renewable energy and energy efficient technologies. Developing climate change prevention strategies will result in positive effects on public health and the environment (e.g. reduction of pollution, protection of water supplies, preservation of farm and forest land uses, and reduced traffic congestion). In addition, there may also be additional savings from avoided health care costs.

3. ***Careful consideration of the trading cap and transparent planning process.*** The proposed cap and trade program is an ambitious program with potential risks. The initial determination of the cap and allocation of permits is critical, as well as controversial, since this decision will determine how the cost burden is allocated among the trading community and how much pollution the state will bear in the beginning of the program. It is important to develop a transparent program showing how the cap will be set and how the program will be enforced. All regulated parties, stakeholders, and interested parties should have ample opportunity to review the proposed market strategies and comment in public hearings.
4. ***Mobile sources.*** I support the recommendation for a public goods charge for transportation. In order to meet any relevant climate change directive, incentives that reduce the state's dependence on imported fossil fuels are appropriate and desirable. As

the *CAT Report* points out, overdependence on petroleum fosters undesirable geopolitical, economic, energy, and environmental consequences.

A proposed cap and trade program (by sector) would not address mobile sources which is a critical source of CO₂ emissions in the environment. The *CAT Report* notes that fossil fuel consumption in the transportation section is the single largest source of California's climate change emissions in 2002 (41.2%); with the industrial section as the second-largest source (22.8%) and electricity production the third largest source (19.6%). Agriculture, forestry, commercial, and residential activities comprise the balance of California's climate change emissions (CEC, 2005). If mobile CO₂ emissions are not considered in the cap, then substantial programs should be in place to address transportation CO₂ emissions. I support the establishment of vehicle standards to reduce greenhouse gasses while still encouraging the development of alternate fuels, transit planning, ride sharing, bicycle bi-ways and other respectable mobile-source conservation efforts.

5. ***Imported Electricity.*** The *CAT Report* recommendations indicate that the out-of-state electric sector would be treated as a load serving entity (LSE) rather than an electric generation facility. Several of the investor owned utilities (IOUs), such as PG&E and others are also LSEs that distribute in-state and out-of-state electricity to Californians. If I am interpreting the text correctly, each LSE would be required to hold emission allowances sufficient to cover all generation emissions associated with the electricity they deliver to their customers. It is important to carefully develop this program to ensure that it does not create perverse incentives that might allow LSEs to import more polluting sources of energy from out-of-state without the appropriate recognition of emissions.

In the California Energy Commission (CEC) Staff Report titled *A Preliminary Environmental Profile of California's Imported Electricity*; the report notes that coal is an important but hidden part of the state's electricity supply and that air emissions are higher for imported electricity than for in-state generation (CEC, 2005). The CEC report indicates that coal generation is the primary fuel source as well as a large and growing percentage of the Western resource mix. Twenty-seven new coal facilities totaling just over 15,900 MW are currently planned in Western states (CEC, 2005). These generation sources are notable for their contribution to pollution in Western states and must be considered in any alternative where electricity is imported to California.

6. ***Tracking and compliance.*** The *CAT Report* does not clearly identify how the emission credits would be administratively tracked and by whom or how. The compliance program and penalties should be clearly defined and offsets should also be identified, if applicable.
7. ***Programmatic approach with consideration of perverse incentives.*** The program presented in this document contains numerous complicated options, many of which must still be determined. This program must be carefully developed to minimize mistakes and perverse incentives. With appropriate coordination and outreach, a trading program and other economic incentives could be launched in increments as the program details become clear and predictable. Substantial portions of the program could be further

documented in depth as part of a programmatic reporting procedure tied to the draft CAT Report. This appears to be a practical way to approach the program since there is much to be determined prior to implementation. At each stage when the key elements have been flushed out, the program details would be further vetted with stakeholders prior to its approval and implementation. A carefully designed, evaluated, and launched program will reap positive results. With such a program, I believe that the "market" will take care of itself and provide future benefits to the state of California, the U.S., and other nations beyond our borders. With the many benefits and opportunities in store, it is imperative that we get on board with a greenhouse gas trading program now.

I appreciate the opportunity to comment on this report and support the CAT program. I look forward to a transparent planning process where all stakeholders may participate in the further development of this important and ambitious plan.

Sincerely,

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